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**Deloitte
Haskins+Sells**

SAN FRANCISCO CHAMBER OF COMMERCE

**Comparative Study
of Taxes and Other Charges
Paid by Business in San Francisco
and Other Areas**

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Summary

AUG 3 1981

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May 1981

EXECUTIVE SUMMARY

Purpose of Study

Compare taxes and other user charges paid by businesses in San Francisco with similar businesses in other California communities.

Communities Analyzed and Reason for Inclusion in Study

- Concord – Decision by some businesses to move part or all of their office staff from San Francisco to Concord.
- Los Angeles – Broad-based competitor for virtually all types of businesses.
- San Diego – Competitor for convention trade, tourism, and office space.
- San Jose – Decision by high technology plants to expand to other bay area communities.
- San Leandro – Competitor for blue collar jobs.

Results of Study

For each business analyzed, San Francisco assesses the highest total taxes and user charges.

- 100-unit medium-priced hotel – Los Angeles and San Diego hotels pay 64.5% and 54.9% of the San Francisco total, respectively.
- 450-person downtown office – Concord, Los Angeles, and San Diego offices pay 15.5%, 78.6% and 14.2% of the San Francisco total respectively.
- Storage warehouse – Concord, San Jose, and San Leandro warehouses pay 71.0%, 84.1%, and 56.6% of the San Francisco total, respectively.
- Neighborhood hardware store – Results range from a high of 96.2% of the San Francisco total in San Jose to a low of 87.9% in San Diego.
- 300,000 sq. ft. office building – Concord and Los Angeles building owners pay 58.8% and 82.2% of the San Francisco total, respectively.
- High technology plant – Concord, San Jose, and San Leandro businesses pay 47.8%, 57.6%, and 42.9% of the San Francisco total, respectively.
- Public sector body – Based upon an extrapolation of the results of the public sector body, San Francisco's entire federal and state governmental sector would pay \$42.8 million a year if it were assessed taxes and other charges similar to a private business.

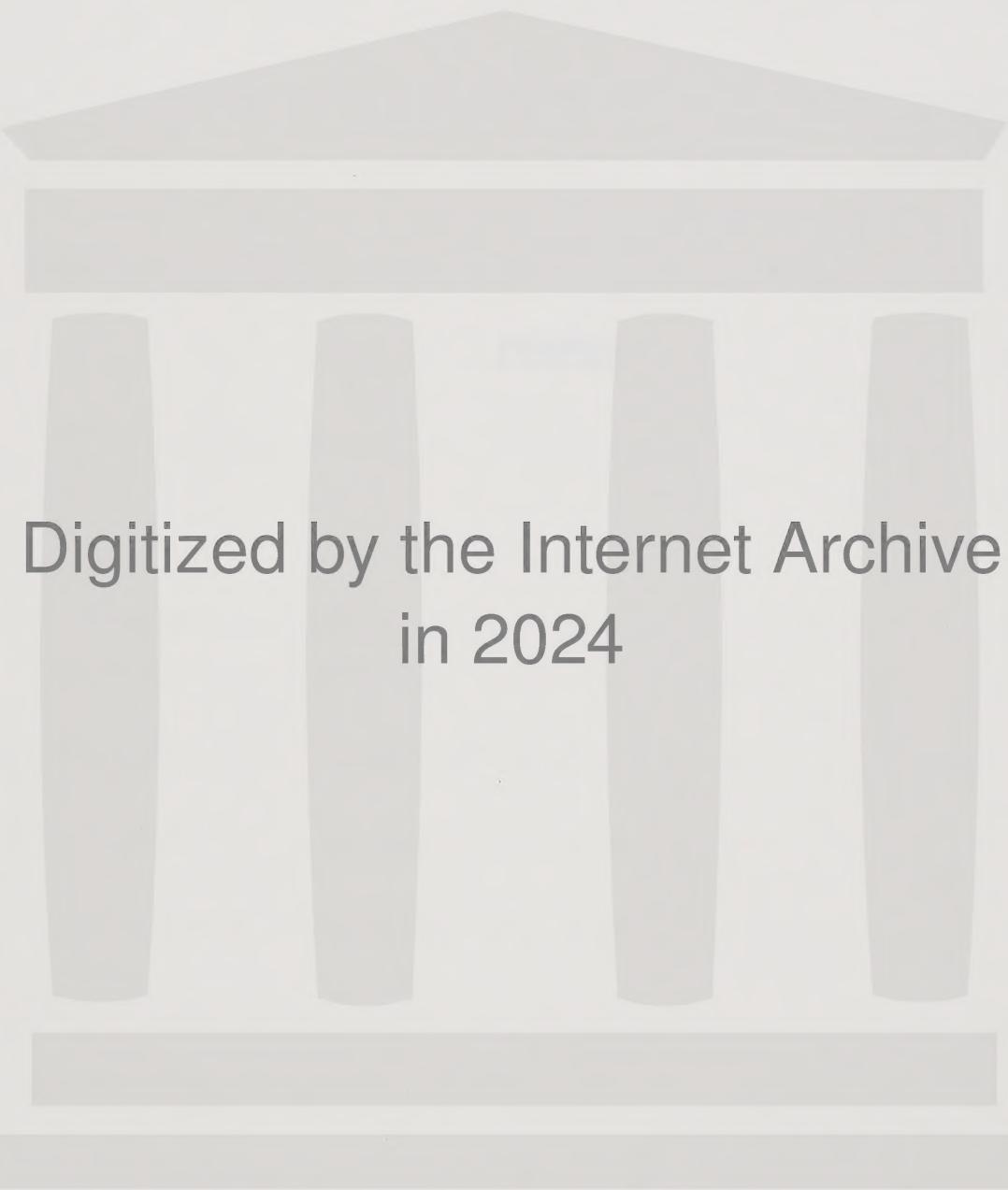
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SUMMARY



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SUMMARY

Background

The passage of Proposition 13 reduced the property tax to a mandatory limit of one percent of the 1975 market value, plus a maximum of one-half of one percent for any existing bond indebtedness. Increases in assessed value are limited to two percent per year, except in case of a title transfer, in which case it is reassessed at fair market value. Since Proposition 13, San Francisco voters have gone to the polls to vote on raising business taxes. These propositions were defeated in November 1979 and June 1980. In November 1980, the voters approved Proposition M, a policy statement which directs the San Francisco Board of Supervisors to levy additional taxes on large corporations.

There have been two studies commissioned recently by the San Francisco Chamber of Commerce to perform cost-revenue analyses of the San Francisco downtown highrise district.

These are:

- Downtown Highrise District Cost Revenue Study by Arthur Andersen & Co., November 1980; updated April 1981
- Fiscal Impacts of New Downtown High-Rises on the City and County of San Francisco by Gruen Gruen & Associates, March 1981

In February 1981 the Chamber of Commerce commissioned Deloitte Haskins & Sells to conduct a comparative analysis of

the taxes and user charges paid by businesses in San Francisco and in other urbanized areas in California. This study is different from the two previous studies in that it analyzes taxation in six areas, as opposed to concentrating on revenues generated, and tax costs incurred, by the San Francisco downtown highrise district.

Purpose of Study

The purpose of this study is to compare the major taxes and other charges paid by businesses in San Francisco with taxes and other charges paid by similar businesses in other California communities. These communities, and the reason they were chosen to be included in this study, are:

- Concord -- Decision by certain businesses to move part or all of their office staff from San Francisco to Concord
- Los Angeles -- Broad-based competitor for virtually all types of businesses
- San Diego -- Competitor for convention trade, tourism, and office space
- San Jose -- Decision by high technology plants to expand to other Bay Area communities
- San Leandro -- Competitor for blue collar jobs

This study analyzes the following types of businesses in each of these communities:

- A 450-person downtown office
- A 100-unit medium-priced downtown hotel

- A storage warehouse
- A neighborhood hardware store
- A 300,000 square foot downtown office building
- A high technology plant

In addition, a public sector body was analyzed as if it were assessed local taxes and user charges similar to a private business.

The cities and businesses were initially selected for this study based upon discussions between the Chamber of Commerce staff and the Deloitte Haskins & Sells Project Team. The recommendations were then submitted to the Project Steering Committee, which made the final modifications and selection. To provide additional background, this study also presents a profile of each community.

The following taxes and service charges, which apply to one or more of the businesses mentioned above, are evaluated:

- Property tax
- Payroll tax
- Business license tax
- Utility user tax
- Commercial tenant's occupancy tax
- Sales tax
- Transient lodging tax
- Sewer user charge
- Construction and other related charges

In most urban areas, businesses are subject to regulations, taxation, and nontax charges from a variety of local governmental units. San Francisco is unique from the other areas being analyzed in that a single government unit administers most government functions. To make a fair comparison, we have included all similar services provided in the other urban areas, even if more than one governmental unit levies such taxes and fees.

By mutual agreement, the scope of our study does not take into account other special requirements levied upon a developer by the city, such as building residential housing as a prerequisite for commercial development or similar conditions.

It has been argued in various other studies that local business taxes are of secondary importance in making decisions regarding business locations. Compared to considerations such as availability of labor and raw materials, convenience to suppliers and markets, and quality of life, local tax policies may be of secondary importance. However, when consideration of these factors has narrowed the location choices to a few cities, local tax policy can be a major, perhaps critical, factor in the location decision.

This section summarizes the results of our study in two parts:

- Overall results
- Specific results

Overall Results

The study shows that businesses in San Francisco pay higher taxes and user charges than businesses in other areas reviewed. The reasons for this include:

- Higher payroll taxes in San Francisco.¹ The variation between areas is largest for businesses which have a large number of employees, and whose revenues come primarily from outside California. The reason is that San Francisco is the only city which assesses a tax on payroll. Other areas base their comparable business license taxes on revenue generated in California and/or on the number of employees.
- Higher property values in San Francisco which result in higher property taxes.
- Higher transient lodging taxes in San Francisco.
- Higher sewer user charges in San Francisco.

Specific Results

The results relating to each business are shown on the following pages. Table I-1 summarizes recurring taxes and user charges paid by the businesses. Next, Table I-2 shows the impact of the transit assessment district. Finally, Figures I-1 to I-6 contain charts with highlights of these results. In addition to the six businesses, a

¹We have analyzed the cost to San Francisco businesses based upon a 1.1% payroll tax and the business tax rates in effect prior to April 1980. Litigation is pending concerning the validity of subsequent increases in these taxes. If the increases are held to be invalid, arrangements will be made for credits or refunds of collections in excess of the amounts legally collected.

public sector body (California Public Utilities Commission) was analyzed. The results show that it would pay \$456,139 a year (excluding corporate income taxes) if it were assessed taxes and user charges similar to a private business. If the entire San Francisco federal and state government population were assessed taxes similar to a private business, it would pay \$42.8 million a year (based upon a per employee rate for the public sector body).

Table 1 - 1

RECURRING TAXES AND USER CHARGES PAID BY THE SAMPLE BUSINESSES

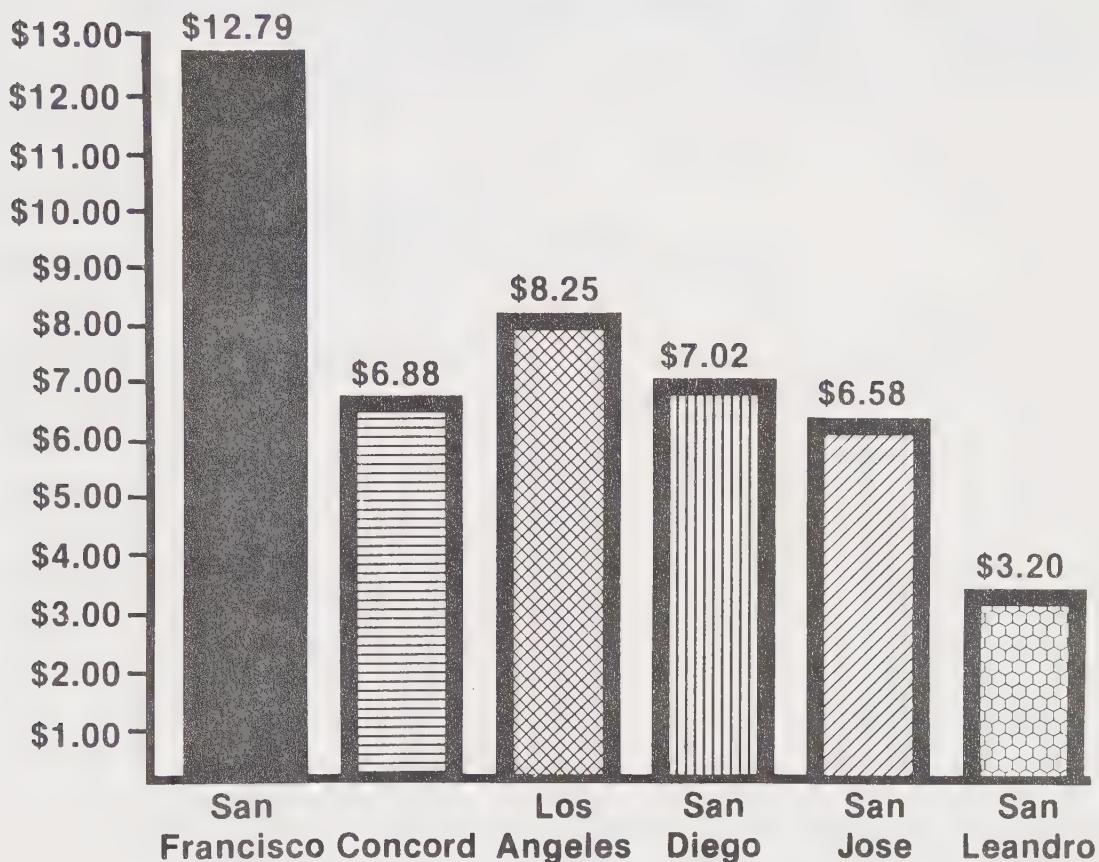
Table I-2
 IMPACT OF TRANSIT ASSESSMENT DISTRICT
ON 450-PERSON OFFICE¹

	Recurring Taxes andUser Charges Paid.....		If a 50¢ Per Square Foot Levy	
	...At Present...		..Is Assessed...	
	<u>Dollars</u>	<u>% of SF</u>	<u>Dollars</u>	<u>% of SF</u>
San Francisco.....	137,380	--	189,880	--
Concord.....	21,258	15.5	21,258	11.2
Los Angeles.....	108,040	78.6	108,040	56.9
San Diego.....	19,522	14.2	19,522	10.3
San Jose.....	36,484	26.6	36,484	19.2
San Leandro.....	35,572	25.9	35,572	18.7

¹The transit assessment district would place a special recurring charge on commercial downtown property. For purposes of our computation, we have assumed a 50¢ per square foot levy.

FIGURE I - 1

ANNUAL TAXES AND USER CHARGES PAID PER NIGHT'S STAY IN A 100-UNIT HOTEL

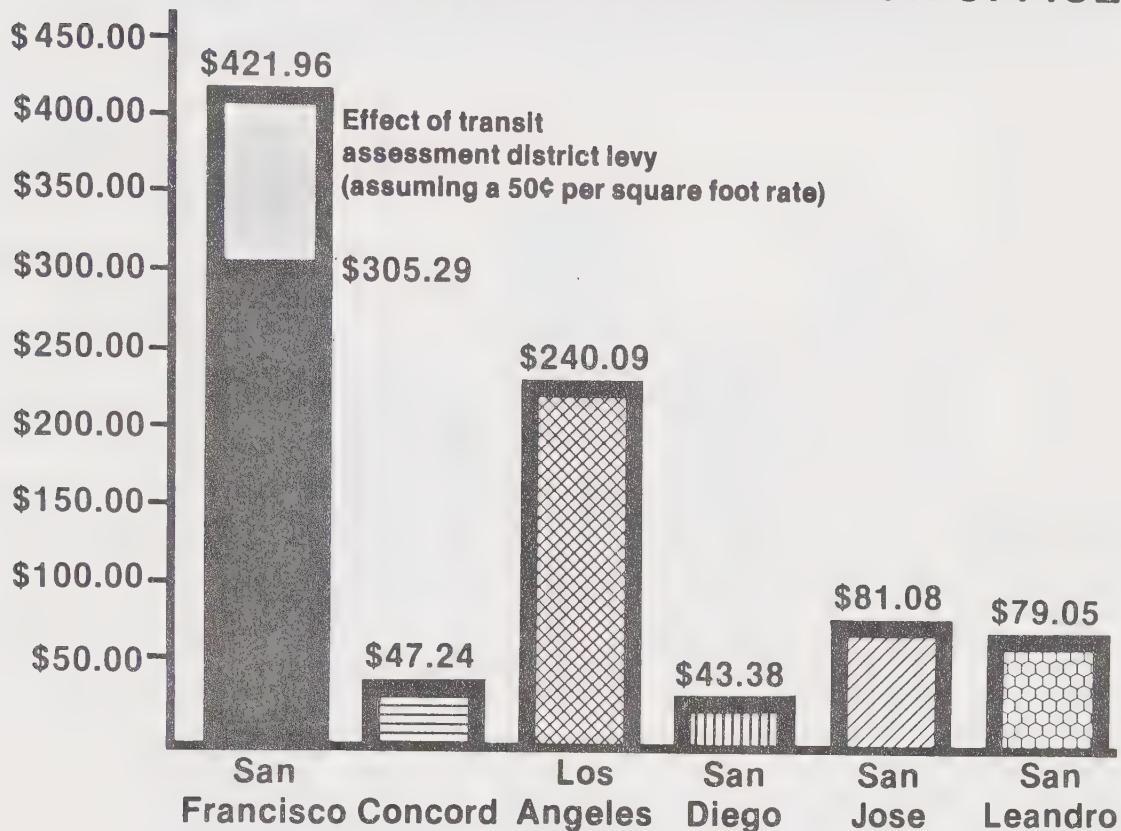


Highlights

- Los Angeles, which competes with San Francisco for convention trade, assesses 64.5% of the San Francisco total.
- San Diego, which provides competition to San Francisco for the tourist trade, assesses 54.9% of the San Francisco total.

FIGURE I - 2

ANNUAL TAXES AND USER CHARGES PAID PER EMPLOYEE BY A 450-PERSON OFFICE

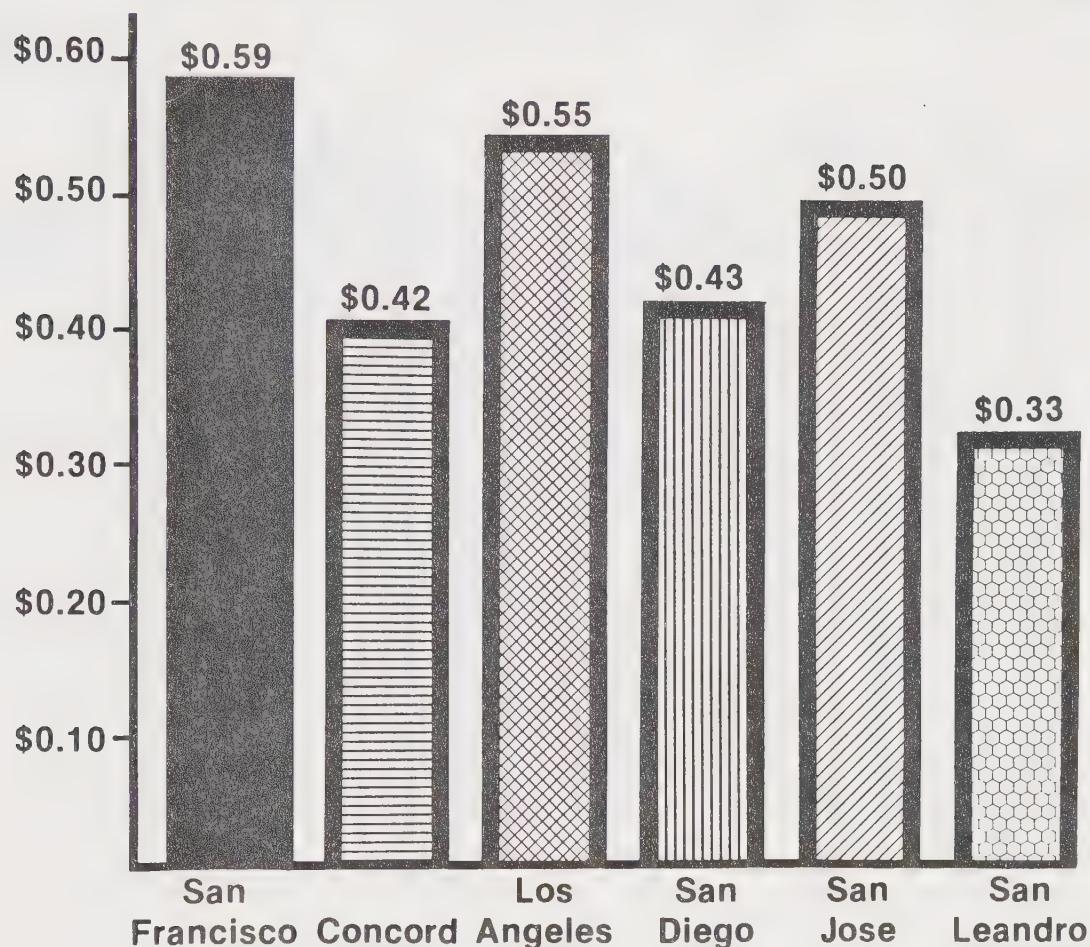


Highlights

- Concord, which has recently been the beneficiary of businesses which have moved out of San Francisco, assesses 15.5% of the San Francisco total
- Los Angeles and San Diego, which provide competition to San Francisco for corporate headquarters, assess 78.6% and 14.2% of the San Francisco total, respectively
- The transit assessment district would place a special recurring charge on commercial downtown property. Assuming a 50¢ per square foot levy, the sample office would pay an extra \$52,500 per year, or \$117 per employee.

FIGURE I - 3

ANNUAL TAXES AND USER CHARGES PAID PER SQUARE FOOT BY A STORAGE WAREHOUSE

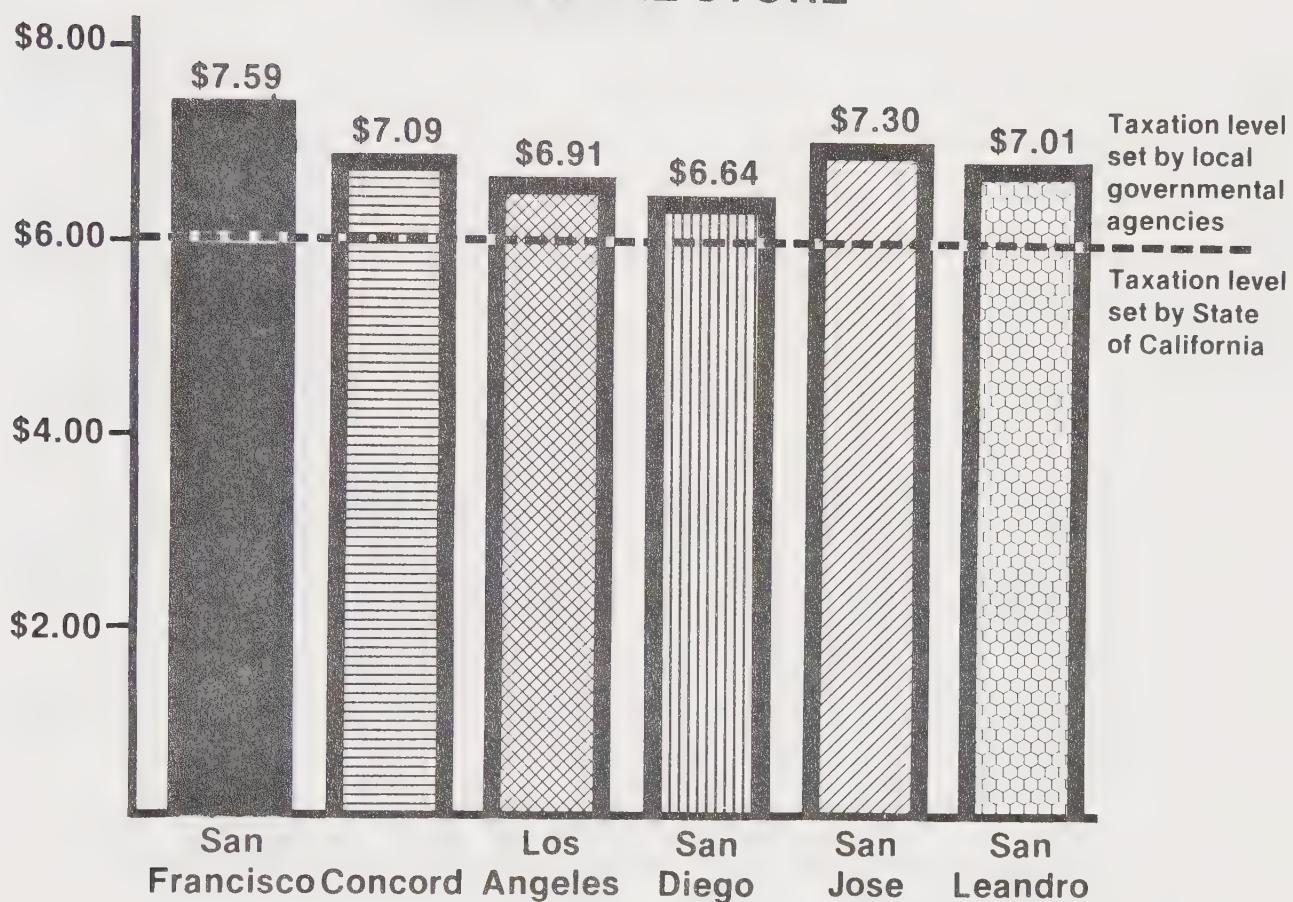


Highlights

Bay area communities range from a high of 84.1% of the San Francisco total for San Jose to a low of 56.6% for San Leandro.

FIGURE I - 4

**ANNUAL TAXES AND USER CHARGES PAID PER
\$100 OF SALES BY A NEIGHBORHOOD
HARDWARE STORE**

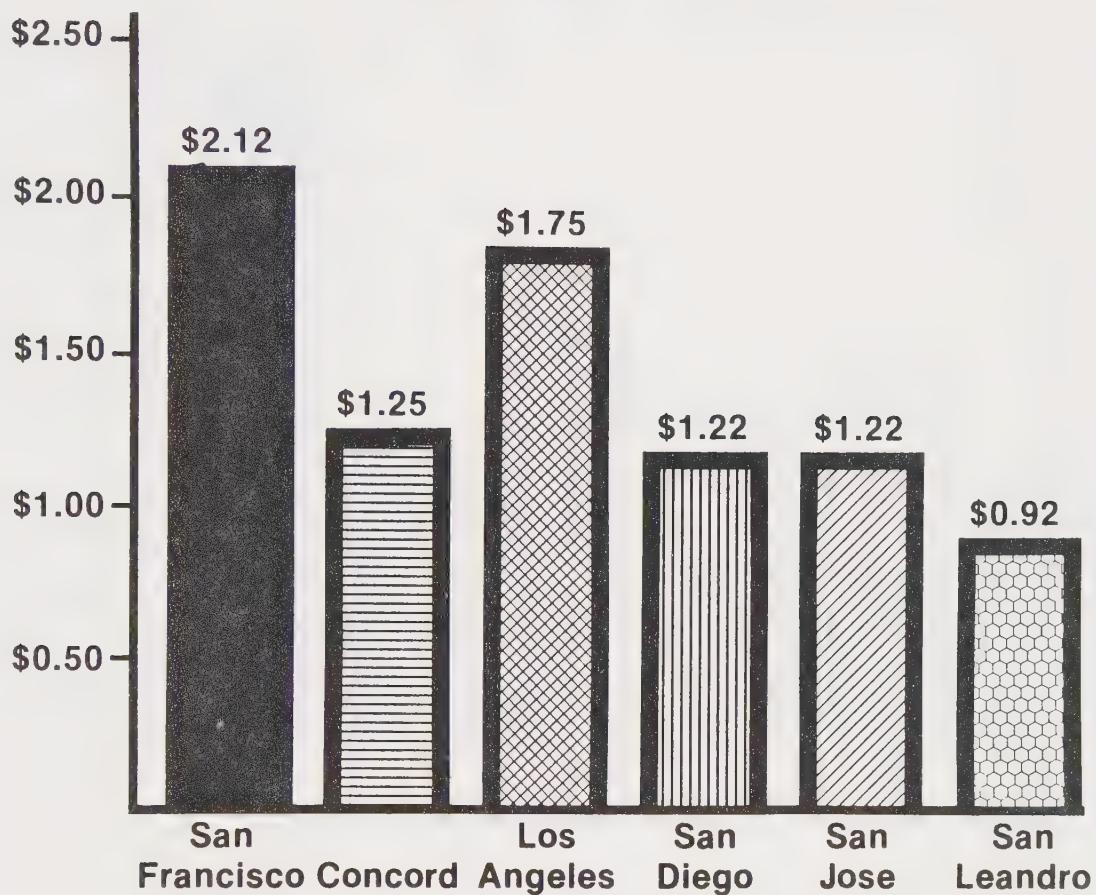


Highlights

Results range from a high of 96.3% of the San Francisco total for San Jose to a low of 87.5% for San Diego. These figures are skewed heavily by large amounts of sales taxes paid, relative to other taxes contained in the analysis. When taxes other than the state required sales tax are compared for the areas, the difference is much larger. San Francisco would still pay the highest taxes. Other areas would range from a high of 81.8% of the San Francisco total for San Jose to a low of 40.3% for San Diego.

FIGURE I - 5

**ANNUAL TAXES AND USER CHARGES PAID
PER SQUARE FOOT BY A 300,000 SQUARE FOOT
OFFICE BUILDING**

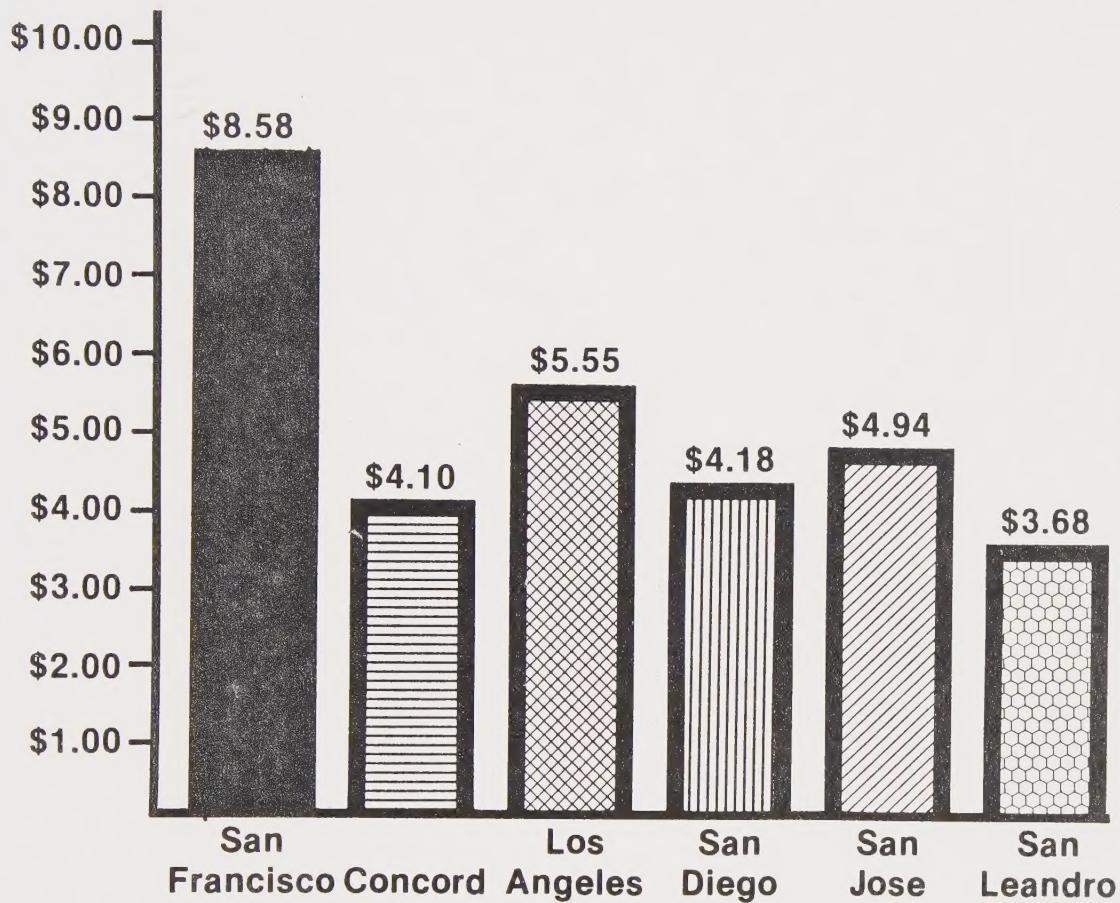


Highlights

- Los Angeles building owners pay 81.9% of the San Francisco total.
- Concord is the next highest, with a comparable figure of 59.5%.

FIGURE I - 6

ANNUAL TAXES AND USER CHARGES PAID PER \$100 OF SALES BY HIGH TECHNOLOGY PLANT



Highlights

- San Jose, an area where many high technology plants are located, assesses 57.3% of the San Francisco total, which includes the effect of a construction tax on new development in San Jose.
- Concord and San Leandro, the other Bay Area locations which might provide competition from the spillover in "Silicon Valley", assess less than 50% of the San Francisco total.

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